LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
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FISCAL IMPACT STATEMENT

LS 7656
BILL NUMBER: HB 1459

DATE PREPARED: Mar 22, 2001
BILL AMENDED: Mar 22, 2001

SUBJECT: Notice of Amendments to Health Provider Contracts.

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FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill provides that an insurer or health maintenance organization (HMO) that enters into a contract with certain health providers to provide health care services shall provide at least 45 days written notice to the provider of an amendment to the contract. The bill allows a provider to cease to provide health care services under the contract without penalty at the end of 90 days if the provider receives the written notice and within 15 days chooses not to approve the amendment. The bill requires a provider who terminates a contract to notify a patient of the contract termination before providing services. The bill prohibits an insurer or HMO from requiring a provider who terminates a contract to comply with the proposed amendment. The bill specifies that a contrary contractual provision is void. The bill also provides an exception to amendments to contracts required by state or federal law.

Effective Date: July 1, 2001.

Explanation of State Expenditures: (Revised) The bill could potentially have an impact on future costs faced by health plans providing health benefits to state employees. These additional costs would presumably be passed through to the state and state employees via higher premiums and enrollment fees. By agreement with the state employees, the state agrees to pay 93.5% of any increase in the total premiums for both single and family coverage during the life of the agreement. Employees will pick up the remaining 6.5% of any increase.

Background: The bill would require insurers and HMOs to provide notice of upcoming contract amendments to physicians, dentists, nurses, chiropractors, podiatrists, optometrists, and psychologists they contract with for health care services. More importantly, the bill would allow these providers to opt out of a service contract without penalty if they don't approve of contract amendments an insurer or HMO might propose. Providers would not be able to terminate the contract for 90 days, but insurers and HMO's could not require providers to comply with the amendment during the period remaining before the contract is terminated.

Reportedly, provider service contracts typically contain a provision allowing the insurer or HMO to amend the terms and conditions of the contract. As well, it is reported that these amendments typically deal with reimbursement rates for service providers. Consequently, the bill could diminish the ability of insurers or HMOs to, at any time, amend a provider service contract to reduce or stem increases in reimbursement rates to providers. This could lead insurers and HMOs to raise premiums or consider other cost-cutting measures instead of proposing service contract amendments to reduce, or at least stem the growth in, reimbursement rates. By limiting the ability of insurers and HMOs to amend provider service contracts, the bill also could serve to shorten the length of contracts that insurers and HMOs are willing to enter into with providers. Or, the termination provision could lead to renegotiation of contracts, if terminating providers can't be replaced. As a result, this could increase the administrative cost of the contracting process for insurers and HMOs.

Explanation of State Revenues:

Explanation of Local Expenditures: Similar to the state, increased premiums and enrollment fees may result in additional costs to local governments and school corporations purchasing health benefits from insurance companies and HMOs for their employee health benefit plans. However, this may not necessarily imply that additional budgetary outlays will arise since employer responses to increased health benefit costs may include: (1) greater employee cost sharing in health benefits; (2) reduction or elimination of health benefits; (3) reduction in the size of the workforce eligible for health benefits; and (4) passing costs onto workers in the form of lower wage increases than would otherwise occur.

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected: Local Governments and School Corporations.

Information Sources: Jim Zieba, Indiana State Medical Association, 261-2060.